

Future Imminent Part Two: Playing (And Winning) The Content Game

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A strange warp effect is taking hold in the world of new media. As the ability to deliver information increases, and the need for content to fill this increased spectrum increases, the ability to absorb it diminishes disproportionately. Information overload is already a fact of life, just as the bombardment from all directions begins in earnest. Television (especially cable), multimedia personal computers, video games, and other specialized platforms bring us huge amounts of information and entertainment. As content floods in from every direction, our personal and professional interests become more specific (or focused) and are a primary factor in allocating time.

Taken to its logical conclusion, this implies that the infinite availability of information will be met with an infinitesimal ability to accept it, and your interest level will have to be fairly high to make it through from start to finish. This is one of the many variables inherent in playing the "content" game. Take the time to examine and analyze what it really takes to play (and win). By the way, if any myths get trampled here, we apologize in advance. But wouldn't you

really rather know now, than later—when it might cost you dearly?

The Content Crisis

Everybody's talking about it. Like sex and Chinese food, everybody wants it, and as soon as they get it they want some more. Bruce Springsteen sings about "57 Channels And Nothin' On," and if you've "channel surfed" your own cable system from top to bottom, you might agree with him. Everything is there for a reason, and what doesn't generate an acceptable amount of revenue won't be around very long. At a time when channel capacity is a major issue in the cable industry and 60 or more new cable networks are desperately seeking carriage, it would seem the content glut is at an all-time high. Relax, this is a temporary situation. The dawn of Direct Broadcast Satellite (DBS), which is just now passing the one million subscriber mark, brings a least 150 channels into your home through an unobtrusive little dish at a reasonable price point of \$700 for the equipment plus \$29.95 a month for the programming, plus whatever movies you want via pay-per-view (PPV). If that sounds too expensive, call Primestar, who will give you the same thing for just the monthly fee. And the rush is on to provide digital set-top boxes to cable systems that will increase your channel capacity to nearly the same numbers. Now, the programming flood looks more like a trickle. How do you fill up all those slots? And how many media (TV, PC, cable, on-line, CD-ROM, interactive) can you play in?

Perhaps the most potent combination in the content business is catalog and the production environment required to create new content in volume. In evidence of the growing concern over the ability to create or acquire content, a look at the "big boys"

behavior over the past year is telling. It all started with Viacom and QVC waging an ever-escalating bidding war for Paramount, with the winner raking in a massive catalog of movies and television shows and gaining control of a significant portion of the industry's production facilities. Next, we encounter Peter Barton, President of Liberty Media, and John Malone's number one gun at cable giant TCI, at every conference where content providers are likely to appear. Peter is the one in the corner waving Liberty's \$200 million checkbook around in the hopes of attracting smaller content developers with cutting-edge products to fuel the TCI machine. TCI has also invested \$100 million into its digital production facility at Denver Tech Center and opened their doors to content developers. This facility will digitize the programming and store it for satellite distribution to TCI and other affiliated cable systems so the new digital set-top boxes can explode it onto television screens.

A similar amount has been put into Bell Atlantic's digital production facility in Reston, Virginia. The boys at BVS (pronounced Beevis, like the MTV cartoon character, and short for Bell Atlantic Video Services) didn't stop there. They joined up with their buddies at NYNEX and Pacific Telesis and did a deal with Mike Ovitz and Creative Artists Associates (CAA, the Hollywood mega-agency that became a 500-pound gorilla by packaging stars, writers, and producers to studios seeking box office bonanzas). The new joint venture recruited Howard Stringer (the man who lured David Letterman to CBS) as President and tasked him with assembling the content to fill up the Video Dialtone (VDT) networks they are building.

Not to be outdone, Ameritech, BellSouth, and SBC Communications (formerly Southwestern Bell) partnered up with the Walt Disney Company and committed \$500 million over the next five years to provide entertainment and interactive programming for distribution over their VDT nets. This comes hot on the heels of beverage giant Seagram's liquidating its cable holdings to buy 80% of MCA, another mega-studio with a huge library and extensive production facilities.

So, as the content game heats up, there are opportunities on all ends of the spectrum. Whether you create it, package it, distribute it, or dispense it, there is a place in the game for those who are serious about being on the playing field. As we examine the key issues, think about where you are today, where you want to be in three to five years (the current timeframe for creating an "overnight" success), and

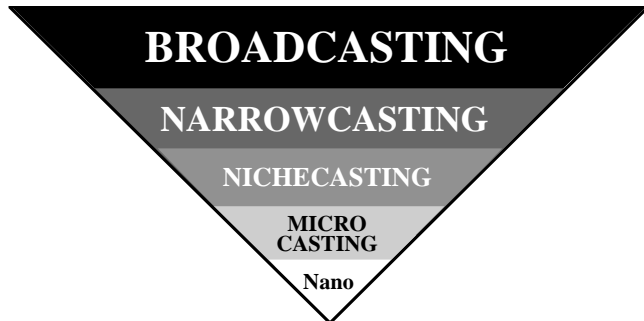
measure your resources to determine which level to play at. And if you decide you're just a "little guy," don't get cold feet. Peter Barton isn't the only one looking for smaller shops to plant seeds in. And those big VDT networks the "Baby Bells" are building have thousands of jacks on their giant selector switches, and you can rent one for yourself if you want to start your own regional network.

The core issue is knowing your audience, and being able to predict what the response factor will be. The more clearly a demographic target can be identified, the easier it is to hit. This is where it's useful to look at a generic model (see Figure 1 and Table 1) of the audience segments being pursued by the new media:

- *Broadcasting* is what the "mass" media and traditional television networks do. It is targeting the broadest possible audience by going after the largest common denominator.
- *Narrowcasting* is what cable does, seeking out specific (but broad enough to tickle the Nielsen meter) demographic groups and tailoring the appeal to match those criteria, e.g., sports, movies, news, and music.
- *Nichecasting* is the latest slice, where a small segment has either enough interest or population to be identifiable. Think SIGs (special interest groups) such as golf, cooking, travel, etc.
- *Microcasting* is unique to new media because it requires a more definitive level of delineation. Once identified, this category of viewer is more easily motivated because the identity factor is so strong. This is currently the domain of interactive media, because the viewer responds immediately to the program, and facilitates another important micro—micromarketing.
- *Nanocasting* is a secondary subgroup—the niche within the niche within the niche. The identity factor is so narrow and so specific that it may be limited to a small circle of associates, such as a professional grouping. But new media makes them approachable via micromarketing.

The dynamics that drive the content business are directly proportional in terms of cost, quality, and audience. If your costs to produce or acquire are high, the quality should also be high because you're going to need a bigger audience to recoup your costs so you can go back and do it again. Fail to execute this sequence, and the game is over. Conversely, by

Figure 1
Audience Segments



Source: Vector Partnerships

targeting appropriately, you can produce viable content at a lower cost while maintaining a relative level of quality because the audience interest factor is so strong. As the appeal narrows, the response rate goes up, allowing the yield per unit to go up accordingly and resulting in a profit you can live with. Find a selective area of interest with a broad enough base that can be accessed repeatedly and consistently, and you've got a winner.

Sound confusing? It's not. To a great degree, it's just knowing your audience and practicing good database management. The trick is to collect the right data (meaning data relevant to what you are doing)

and analyze it properly. The master model here is Blockbuster Video (see sidebar on next page), where they track your movie rentals and can suggest a movie if the one you want is already out. They take it one step further and deluge you with impulse options including candy, special promotions, and other enticements directly related to why you're there. It's pull-through merchandising deluxe, when all you wanted was to watch *Jurassic Park* for the third time. The tie-ins, cross-promotions, and impulse buying drive the overall profits through the roof.

Everything On Demand

The venue of new media is the digital domain. If you don't understand its impact, make sure you check out what Ivan Seidenberg, Chairman and CEO of NYNEX, has to say in the accompanying sidebar. What differentiates new media from old, interactive from static, is digital content. Today's broadcast and narrowcast environments are analog and linear. The transition to new media will make them digital and referential, meaning non-linear access allowing viewers to enter, exit, and thread their way through based on option and choice.

The model for this exists on the Internet home pages of the World Wide Web. If you haven't "surfed the Net," visit the "Web" to experience the excitement.

Table 1
Audience Identifiers and Characteristics

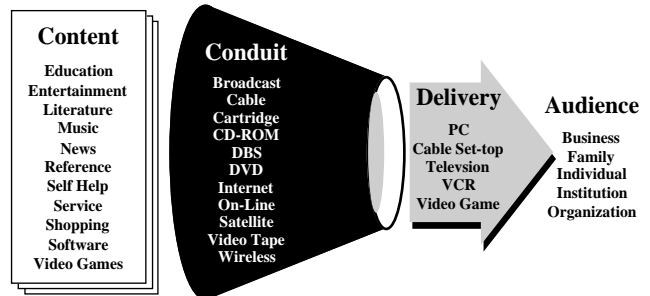
| Category | Identifiers | Characteristics |
|--|---|--|
| <i>Broadcasting</i> Response Rate: 1 in 100,000 | Similar background and experiences within broad categories (age, race, religion) | Level of interest varies, low response rate, demographically shallow |
| <i>Narrowcasting</i> Response Rate: 1 in 10,000 | Shared background and experiences within general categories (generation, nationality, gender, religious preference) | Higher level of interest, better response rate, stronger motivation within demographic group |
| <i>Nichecasting</i> Response Rate: 1 in 1,000 | Selective background and experiences, clearly delineated categorical groupings based on bias | Categorical interests, higher response rates, excellent motivation once identified |
| <i>Microcasting</i> Response Rate: 1 in 100 | Extremely selective background and experiences, clearly delineated by categorical sub-groupings | Focused interests, forecastable response rates, relatively easy to motivate once involved. |
| <i>Nanocasting</i> Response Rate: 1 in 10 | Specific background and experiences, clearly delineated by type once involved | Limited scope of interest, predictable response rates, highly motivated |

Source: Vector Partnerships

It's too involved to describe here, but the effect is mesmerizing. Web surfing will definitely alter the way you look at how you interface with information going forward. It also impacts the way a story is told. The traditional content structure of beginning/middle/end blur as information access techniques are applied to the presentation of content (see Figure 2). This is the interactive part, which engages the viewer by sucking them in and taking them on a whirlwind ride. The current masters of this are the video game developers, who create a series of choices that allow the player to wind their way through the maze and create a unique sequence. Interactive movies are now approaching a similar level of sophistication, as is interactive educational courseware. So, the good news is that getting the consumer/viewer involved will allow them to follow their own paths, keeping them involved. The difficulty is reaching them.

That's one reason why Video-On-Demand (VOD) is perceived as a "killer" application in the cable

Figure 2
Content Conduit and Delivery



Source: Vector Partnerships

industry. Immediate access to any program you want. Instant gratification. The ultimate time shift application, allowing any viewer to see (and participate in) any program at any time. Creating a true "On-Demand" delivery system is just now technologically feasible and is far from being economically viable. So

Getting To The Customer

The Telecommunications Industry's Future conference held in New York City on April 4, 1995 yielded sage commentary on getting content into the market and delivered to the consumer:

How To Do It

We [Blockbuster] have probably the finest name in in-home entertainment in terms of brand name, and on top of that, the technology for Video-On-Demand is going to be tariffed, and that Ivan [Seidenberg, Chairman/CEO of NYNEX] will rent it to you, AT&T will rent it to you, Sprint will rent it to you, so we think you could go and do a service called 1-800-BLOCK-BUSTER. We could have our own navigator, our own screen. We have a database with about 50 million names in it, so we know your phone number, we know what you like, we know who you are, we know how many kids you have, we know your spending habits. It's a pretty powerful direct marketing tool, so when and if Video-On-Demand comes, I think we will, at minimum, be a wholesaler....

—Frank Biondi, President/CEO Viacom International, commenting on the future of Blockbuster in the content business

DOING IT AS QUICKLY AS POSSIBLE

What we [NYNEX] see occurring are two underlying principles that are going on in the industry: the conversion from analog to digital is changing all the quality, and all the cost curves, and all the economics of everything we do; and secondly, we're watching consumer demand increase at faster rates than we had forecasted, or anyone has forecasted, so those two things together suggest that...whether it be interactive, or new forms of niche markets or whatever kind of programming and content that we can put over our networks, we try to solve the problem of getting access to the customer faster than we've done it before.... Frank [Biondi] made the point that it will take 10 years to wire 60% of the country, and I think the limitation there is that it doesn't necessarily have to be wire, it can be a combination of technologies. When Pacific [Telesis] and Bell Atlantic and [NYNEX] talked about the venture, with Howard [Stringer, former President of CBS and now head of the joint venture] and with CAA, we knew they would concentrate on the demand side, which is the programming side, and we would work on the technology side to increase access to customers at a quicker rate. The CAI acquisition [NYNEX and Bell Atlantic] made last week will enable us, at least within the NYNEX region, to reach about 75% of the homes on a line-of-sight basis as soon as we turn the service up...and the real trick is to get the cost of acquisition to the customer down to the point where it makes Howard and the rest of the panelists really want to pump out the content as quickly as possible.

—Ivan Seidenberg, Chairman/CEO of NYNEX, commenting on the Bell Atlantic/NYNEX/Pacific Telesis/Creative Artists Associates joint venture, and the CAI wireless acquisition by NYNEX and Bell Atlantic

VOD services for movies and other shows are being demonstrated or tested without a cash commitment to bring out as a product, or a timeframe for final delivery. The reasons are tied to cost. The delivery mechanism (VOD over broadband) costs tens of millions per cable or VDT system (not including licensing the movies), pushing the "per subscriber" cost over any currently viable economical threshold. The penetration rate required to make it feasible is contingent upon having a sufficient library of movies to drive the "buy rate" up the scale.

The cost to digitize a movie for storage in a VOD library varies from \$1,000 to \$5,000, depending on the quality of picture and length of movie. Further, the movie studios understand the aftermarket licensing game, and expect a substantial royalty in return for distribution rights. The current pricing model for a \$3.99 movie over cable yields 45% for the movie studio, 10% for the vendor (Request TV, Viewer's Choice, etc.), and 45% for the operator, so it's easy to see why the telcos are so anxious to get their movie machines up and running, either over their existing wires or over the new wireless services being auctioned off to the highest bidder by the FCC.

The fact is that you don't need a VOD network to reap the benefits. What the entertainment industry has now is varying forms of pay-per-view. Whether you go down to the mall and sit in the theater, rent the video and bring it home, or call your local cable operator to descramble the signal for the evening, it's all governed by payment for limited use. The general rule is that the greater the selection, the higher the traffic volume. Multiplex movie theaters and overstuffed video outlets create the traffic and have become the norm, forcing the neighborhood venues into extinction. In the past year, PPV promotions and "Near Video-On-Demand" (NVOD) trials by the cable industry have proven that offering either more PPV choices or more frequent start times doubles the buy rate. Do both, and it quadruples. But in order to do either, the channel capacity must be there. That's why almost half of the DBS services' channel capacity is given over to PPV. The billion dollar satellite required to beam digital signals into your mini-dish are being paid for one movie at a time.

This shouldn't come as news to anyone tracking this for any length of time. The cable industry was built on two cornerstones: movies and sports. They remain the most prevalent types of programming and dominate PPV. In evidence of this, Paul Kagan & Associates (the Carmel, California consultancy that has

become the guru of PPV) stated in their *1994 Media Trends* report that, while the movie industry passed the \$5 billion mark in revenues for the first time in 1994, cable PPV will grow from \$404 million in 1992 to a projected \$1.1 billion in 1996 for all types of PPV programming combined. This trend will continue as cable systems add channel capacity to deliver "near" VOD service as the next phase.

With the advent of interactive television, it now becomes possible to expand the model to include every other category of programming. Sega has created the "Game Channel" and will have 300+ cable systems delivering a library of 50 video games on demand by the fourth quarter of 1995, replacing 75% of the catalog every month to stimulate usage. The \$12.95 per month fee gets you a special cartridge to plug into your Sega game machine that hooks up to the cable wire that downloads the games into your home. A telephone call tells the cable company what game you want to play and, within a few minutes, the joysticks are flying. This is much cheaper for the consumer, who pays an average of \$30 to \$50 per game cartridge or CD-ROM, only to see their kids cast it aside within three months. The cable operator loves it because the special cartridge costs \$180 per unit and they keep \$7 as their profit from the service. The 26-month ROI is the shortest they've seen to date, and subscribers are ordering at a rate that could reach 20% penetration within the first year.

This model works for other types of programming as well. Educators will begin marketing "pay as you learn" courseware as an interactive service. Self-help and do-it-yourself publishers will make their training available in a similar format. Vast libraries will become available for purchase in increments. The "chapter" price may be a significant percentage of the "book" price, but if all you need to do is fix a faucet, you don't need the entire plumbing manual.

Changing the pricing model expands the concept of pay-per-view to three categories: "per play," "per day," and "unlimited usage." The last option does not imply ownership, but an unrestricted right of use on a single platform. Just like computer software (in case you've never read the license agreement), you won't own it, but you will have the right to use it as long as you want. The new three-step model allows for flexibility in pricing and, combined with increased selection, stimulates much higher usage per subscriber household. This works well for things like video games, movies, and other entertainment while providing a framework for expanding the content base of the

distribution system. What makes the flexible pricing structure possible is that the interactive set-top box functions as a point-of-sale terminal capable of presenting you with a list of choices, accepting your selection, and creating the billing record before the show begins. It may also allow you to start, stop, pause, rewind, and fast forward, replacing your VCR as the “time machine” that lets you watch at your convenience. And if the interactive box can receive digital signals over the existing analog cable lines, the economics skew positive like an avalanche.

The Rule Of Three “Cs”: Catalog, Content, and Capacity

Success in the new media is governed by the rule of three “Cs”: catalog, content, and capacity. These three comprise the basic components required to operate the distribution channel that gets content to market so it can become revenue. This is where the three “Cs” play out.

CATALOG

If you’ve got it, flaunt it. Having a catalog means one of two things—as a producer, you’ve been successful enough to create a catalog with proven value, or, as a distributor, you’ve acquired enough content to compile a catalog that generates revenue. Both indicate staying power. More important in new media is leveraging the existing catalog across multiple delivery platforms through multiple distribution channels. More places to sell, more customers to sell to. New revenue streams from existing inventory. Once in digital form, the bits can be placed into many buckets of different sizes and shapes. Navigation software allows the content to be delivered on media-specific platforms, including television (via the digital set-top box), personal computer (a digital machine to begin with), and video game machine. Don’t place any artificial limits on where you want to distribute the content, but be careful about bundling across media. Evaluate each distributor and syndicator within each venue. Just because a distributor has strength in one medium does not translate to strength in other media. Each has unique aspects requiring skill and attention to detail.

The other issue is intellectual property rights. Securing them is costly and difficult and protecting them can seem impossible, but, without them, there is no way to maximize the opportunity. Legal fees become a substantial percentage of the overall costs.

Licensing is different in every venue, so don’t sign away the intellectual property rights unless the overall relationship warrants doing so. And if you look to Asia as a market, be prepared for the piracy that results from absence of copyright enforcement. In Asia, everything that can be duplicated *will* be duplicated and bootlegged at bargain-basement prices. The current school of thought says if you must market in that part of the world, put your product on the street at a bootleg price to begin with. And if you go to that part of the world for duplication services, expect your product to be bootlegged at the same time, with the same quality. Stay domestic as long as you can. In the duplication business, the shipping costs more per unit than the copying, especially if it has to go halfway around the world.

CONTENT

“Content is king” is a concept that’s a couple of years old now and has spread from multimedia to all of the new media. Conference after conference has proclaimed this as a primary doctrine. It’s often interpreted to mean that having content will make you a king. An interesting thought, but if everyone has content, where is the value? This mantra has become part of the mass hysteria driving everyone from the mega-studios to local college kids working in their dorm rooms.

What does seem to be true is that content begets content. Once you see how easy it is to create content, you understand why everyone wants to do it. A multimedia PC or a video camcorder are the basic tools. The cost of getting into the content creation business has fallen below \$2,000, making the tools available to the masses. And some of the very best content is being created at the low end of the budget spectrum. Quentin Tarantino is the current example in Hollywood, and programs such as DOOM and MYST have come out of garages and apartments to take the computer world by storm. Other examples exist, but the key factor in entertainment is that someone having fun at what they’re doing will create better content than someone who views it strictly as a business. What these people need are distributors and syndicators that can put the content into a distribution channel as a product and provide the necessary marketing skills required to increase the sales volume.

The reality is that, for some, creation of content is king, while for others, control of content is king. Knowing which side of the equation to be on is

crucial. Creating the content does not get it to market. Controlling the distribution of content requires its own set of skills, including the ability to manage the distribution channels effectively. Striking a balance between the creative and business personas has always been a challenge. The creative types think they can make more money by distributing it themselves, and the business types think they can create it cheaper without the problems of dealing with talent. Neither can truly appreciate the skills of the other until they've actually tried it, and both let greed interfere with getting the job done. What they need is to find a way to be partners, creating a relationship by providing balance in the equation so all can prosper. The marketing effort is still as important as the content, and the four "Ps" of marketing still apply: product, packaging, pricing, and promotion are required for content to become product.

CAPACITY

There are two meanings to capacity in this context. The first relates to channel capacity, which has been discussed. The second is the delivery vehicle required to extract the digital information from the distribution media and place it in front of the consumer. The combination of the conduit (distribution media) and the delivery (presentation platform) create the capacity available to get the content to the consumer.

The new media inherently provides both. With digitization comes compression. The digital format used to expand capacity is called MPEG, named after the Moving Pictures Expert Group that created it. Two versions exist, but the old one is forward compatible with the new one, allowing today's digital content to play on tomorrow's platform. Digitize your content today, and continue selling it in the future. MPEG allows more content to fit into a smaller container. MPEG technology can squeeze a full movie onto one or two shiny little compact discs that cost 35¢ each to produce. The same technology allows the 150 channels to beam into your living room through the mini-dish. Multiplexing four digital channels into each analog channel of your cable system allows it to increase capacity and bring you all those movies and sports in the very near future. You can already buy a player for the "digital videodiscs" (DVDs) for \$199 at the local electronics outlet store, and DVD movies retail for less than the videotape equivalent. A digital set-top box may cost an extra few bucks each month from your cable company, but the increased choices

make it worth having. The multimedia PC has become a fast-selling item, and the new generation of video games all use CD-ROM as the program source. If you don't have a digital platform at home now, you will soon. And all of this will come far ahead of the much touted Information Superhighway, so, by the time it passes your door, digital media will already be smuggled into your entertainment center.

Conclusion

The opportunities related to playing the Content Game are numerous. The game is being played at a furious pace with the big kids trying to bully the smaller ones, and there is more than one game and more than one arena to play in. These are games where skill, agility, and the ability to outrun the competition levels the playing field significantly. Participants vary from multinational conglomerates looking to create content factories to individuals who create for the sheer joy of it. All of them will need help along the way, and many brokers to do their bidding. Pick the game and the playing field carefully. Don't let the magnitude of the task or the technology being used overwhelm your better judgment. The leverage is in the niches, and the niches are plentiful. And the games will be played for a long time to come. Play on. **NTQ**